Force Management Risk

Our forces are steadfast and determined. We value their service and sacrifice, and the sacrifice of their families, who also serve . . . we have the finest Armed Forces on the face of the Earth.

Secretary of Defense Donald H. Rumsfeld
February 4, 2004

Our challenge today is to support our troops and to make sure they have what they will need to defend the nation in the years ahead. We will do this by:

Maintain a Quality Force	**Ensure Sustainable Military Tempo and Maintain Workforce Satisfaction**
Maintain Reasonable Force Costs	**Shape the Force of the Future**

- Giving them the weapon systems, intelligence, information, flexibility, and organizational support they need to win the global war on terrorism,

- Transforming for the 21st century, so they will have the training and concepts they need to prevail in the next wars our nation may have to fight – wars which could be notably different from today's challenges, and

- Working to ensure that we manage the force properly – so we can continue to attract and retain the best and brightest, and sustain the quality of the all-volunteer force.

The Secretary's performance priority for overall force management risk in FY 2005 is *Manning the Force*.

MAINTAIN A QUALITY WORKFORCE
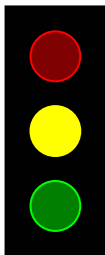
The global war on terrorism has put great pressure on our military forces – both in terms of the overall numbers of forces we have called upon to deploy and in the demands placed on some service members with special, highly sought-after skills and training. To manage risk, we must balance among forces and skills that are in high demand (but short supply) and those that are under-used.

We recognize the traditional measure of "end strength" – that is, how many men and women are on active or reserve component duty– is not a leading performance indicator of force *capability*. Thus, to match the right skills to each mission, we need to understand and specifically manage the factors that shape *capabilities*.

One effect of the global war on terror has been a significant increase in operational tempo, which is likely a "spike" driven by the deployment of nearly 125,000 troops in Iraq as of Summer 2004. Congress provided the emergency authorities to manage this increased operating tempo in the short term. We are operating with nearly 33,000 additional people in the active duty force than authorized by Congress. Congress also supported the mobilization of National Guard and Reserve forces and provided the supplemental funding needed to support our expanded, wartime missions.

However, increasing end strength and funding is not a permanent solution to continuing operational pressures. Instead, we must use other force management tools to manage future risk, such as improved operational jointness, rebalancing the mix of active and reserve components of the overall force, and adjusting our recruiting and retention programs to re-direct resources from under-utilized to highly-demanded skill areas.

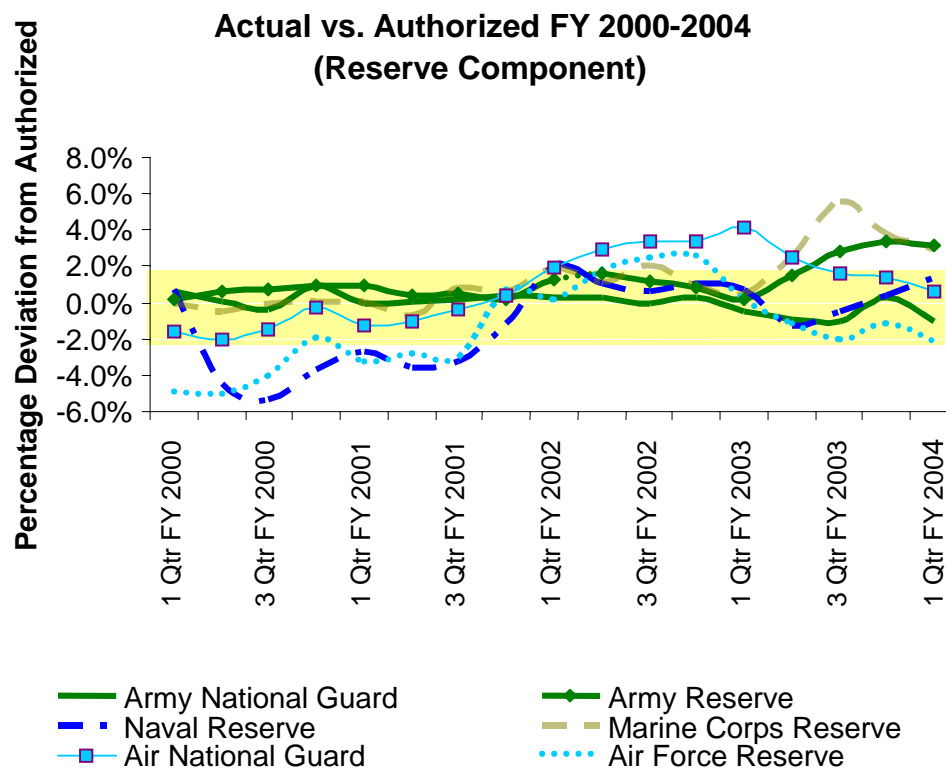## Maintain Manning Levels of Military Forces

Each year, Congress authorizes funds to maintain specific numbers of skilled service members, called "end strength." Services are compelled to budget and recruit, retain, or release members to match those authorized end strength numbers by the end of the fiscal year. By law, the secretaries of the military departments may authorize operating up to 2 percent above the authorized end strength. If he determines it to be in the national interest, the Secretary of Defense may authorize the Services to operate above their authorized end strength by 3 percent for the fiscal year.
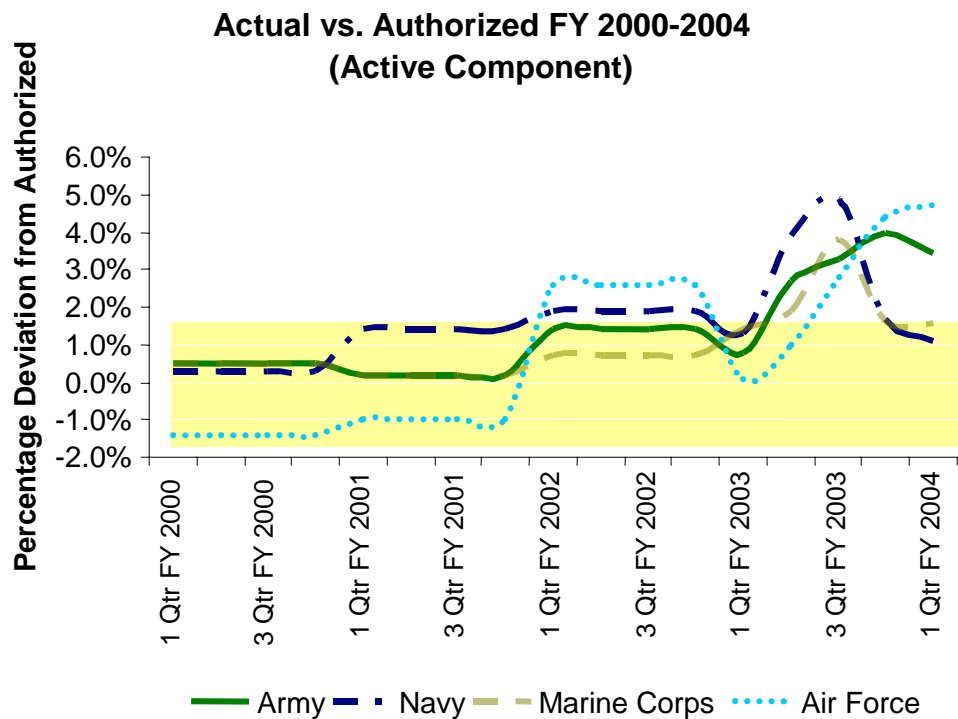
In the past, the military departments reported on whether they met their authorized end strength only once a year, on September 30. Therefore, it was possible that at other times during the year, force levels were higher or lower than authorized. A higher end strength means funds intended for other activities, like training, might be

used instead for personnel expenses. Too few people could mean that some military units may not have enough skilled personnel for their missions, or must draw personnel from other sources, negatively affecting other unit's missions.

Beginning in 2003, the Under Secretary of Defense for Personnel and Readiness instituted quarterly reviews of authorized versus actual strength levels with the Assistant Secretaries of Defense for Manpower and Reserve Affairs from each military department. The military departments continue to be measured against the 2 percent criterion. This allows us to closely monitor actual strength levels versus authorized strength levels, the combined effects of recruiting, retention, and "stop loss," and weigh risks of increasing or decreasing end strength levels.

During FY 2003, all four of the active components, and all of the six reserve components except the Air Force Reserve, exceeded their legislative strength ceilings so they could mobilize and deploy the forces needed to support the global war on terrorism, Operation Iraqi Freedom, and the war in Afghanistan. During FY 2005, we will further evolve this strength measure.

Actual vs. Authorized FY 2000-2004
(Reserve Component)

Legend:
- Army National Guard
- Army Reserve
- Naval Reserve
- Marine Corps Reserve
- Air National Guard
- Air Force Reserve

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**Actual vs. Authorized FY 2000-2004
(Active Component)**

Legend: Army — Navy — Marine Corps ⋯ Air Force

Y-axis: Percentage Deviation from Authorized (6.0%, 5.0%, 4.0%, 3.0%, 2.0%, 1.0%, 0.0%, -1.0%, -2.0%)

X-axis: 1 Qtr FY 2000, 3 Qtr FY 2000, 1 Qtr FY 2001, 3 Qtr FY 2001, 1 Qtr FY 2002, 3 Qtr FY 2002, 1 Qtr FY 2003, 3 Qtr FY 2003, 1 Qtr FY 2004

Meet Military Recruiting Goals

We always watch the numbers of individuals being recruited so that we fill the force to the size and structure our strategic planning process has determined is needed to meet the military tasks assigned to the Department by the President in his national security strategy. Research has demonstrated that two critical components should be monitored when recruiting new enlistees: (1) education levels and aptitudes, which predict an individual's probability of succeeding in his or her military career; and (2) critical skills, which indicate if we are providing the overall capabilities needed to perform our mission.

QUALITY BENCHMARKS

The Department has discovered two reliable predictors that distinguish applicants who will be able to perform to expected standards of the military: (1) high school diplomas and (2) aptitude scores as measured by the Armed Forces Qualification Test (AFQT). The AFQT is a subset of the Armed Service Vocational Aptitude Battery

(ASVAB), which reflects math and verbal ability.[1] Recruits with a high school diploma are more likely to complete the initial term of service than either non-graduates or recruits with alternative high school credentials. Individuals who score at or above average on the AFQT are easier to train and have superior job performance relative to recruits with lower AFQT scores.

Our quality benchmarks are based upon a study completed with the National Academy of Science, which produced a model linking recruit quality and recruiting resources to the job performance of enlistees. It is most cost effective to recruit at least 90 percent of non-prior service recruits with high school diplomas, and at least 60 percent with AFQT scores at or above 50, with no more that 4 percent scoring between 10 and 30 on the AFQT.

Armed Forces Qualification Test (AFQT) Categories and Corresponding Percentile Score Ranges

AFQT Category	Percentile Score Range
I	93–99
II	65–92
IIIA	50–64
IIIB	31–49
IV	10–30
V	1–9
* Individuals are classified into categories according to AFQT scores. Those scoring 50 or above are in AFQT Score Categories I, II, and IIIA (Cat I-IIIA).*	

During FY 2003, all active components exceeded the standard for recruit quality. Each of the reserve components also met or exceeded the recruit quality goal by accessing at least 60 percent of all non-prior service applicants from those scoring in the AFQT categories of I-IIIA (top 50 percentile). The Army and Air Force National Guard and Navy Reserve fell slightly short of the goal of accessing recruits with at least 90 percent with high school diplomas. To improve its

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[1] This year, we updated ASVAB to reflect more current norms based on the most recent Profile of American Youth, a national probability sample of 18 to 23 year olds. This will allow us to compare the cognitive ability levels of today's military applicants and recruits with those of contemporary youth.

recruiting success in FY 2004 and FY 2005, the Army National Guard is refocusing recruiting on recent high school graduates and college-bound students.

Quality Recruit Trends: 1998-2003
Army National Guard

Year	HSDG's*	CAT I-IIIA
1998	85	55
1999	87	60
2000	87	61
2001	86	60
2002	86	60
2003	85	60

HSDG's* 90% Goal

CAT I-IIIA 60% Goal

CRITICAL SKILLS

Although the Department has met overall numeric and quality recruiting goals in the past few years, complete success involves another variable: *maintaining a sufficient and balanced level of critical skills when placing new recruits into military specialties.*

Each military service uses its own definition of "priority ratings" or "critical skills" to denote military specialties requiring particular emphasis by the recruiting command. They then use a variety of factors to decide which military specialties become recruiting priorities. For example, is the specialty essential to completing certain operational tasks? Is the current manning level in that career field too high (or too low)? How many entry-level vacancies are available? Are there any other special recruiting barriers, such as stringent educational or physical standards, that make the specialty unusually popular (or unpopular) with recruits?

However, the Department as a whole must identify critical skills based on military capabilities we need now and or will need in the future. That means that a shortage of a particular military skill area is not necessarily "critical." For example, if we are short military administrative or personnel specialists, we may work more slowly

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or less efficiently, but we will get the job done. But if we are short linguists or communications specialists, we may be unable to deliver the intelligence analysis vital to maintain situational awareness on the battlefield, thus degrading a vital military capability. The military services collaborated to develop a common definition for critical skills for enlisted service members. To be included in the common list of critical skills, a military specialty must meet one or more of the following criteria:

- Crucial to combat readiness

- Undermanned in the force

- Unfilled slots in individual or specialty training classes

- High volume required to fill force

- High entrance standards

- "Undesirable" duty (specialties that are mundane, dangerous, or not transferable to the civilian sector).

During FY 2004, each service will use these criteria to identify the top 10 percent of military specialties that are most critical for their recruiting force. They will then monitor recruiting performance in that 10 percent. During FY 2005, we will refine the common definitions of critical skills based on FY 2004 results data.

Meet Military Retention and Attrition Goals

To successfully manage the overall force, we must balance the accession of new members with the retention of already trained and skilled personnel. For many skill categories, retention provides the best return on our investment in training and experience.

The military services have some latitude for establishing and tracking numeric retention goals. The Army and the Marine Corps report the number of people retained as an absolute value. By contrast, the Air Force and Navy monitor the percentage of eligible people retained. In either case, the annual goals are dynamic and can change during the year of execution as results are reported quarterly. This

allows the Department to fine-tune its retention program throughout the year.

There was an improved active-duty retention trend in FY 2002 and FY 2003, but we view this with caution because the full effects of lifting a majority of the "stop loss" programs are yet to be felt. For FY 2003, the Army and Navy met or exceeded all their retention goals; the Marine Corps barely missed its first-term goal. Although the Air Force missed its mid-career goal for FY 2003, results from early FY 2004 indicate this downward turn is correcting.

We expect some pressure to meet the FY 2005 retention targets. The improving economy is a significant competitor for experienced military personnel. In addition, some service members who experienced family separations as a result of deployments in support of Operation Enduring Freedom or Operation Iraqi Freedom may elect not to continue their military careers. We will be watching these numbers closely.

The implementation of "stop loss" programs has affected reserve component attrition rates by not allowing some members to leave the selected reserve. This, coupled with many reserve component service members who elected to extend their enlistments to support the war on terrorism, kept enlisted attrition rates near or below the ceilings across all reserve components. Only the Army National Guard and Air National Guard exceeded their ceilings, but not by much. The overall reserve component attrition rate of 18.4 percent is the lowest since 1991, when "stop loss" was instituted for Operation Desert Storm.

Like the active component, our ability to stay within the targeted attrition ceiling for FY 2005 will depend on how aggressively the economy competes for our experienced personnel and the number of service members who may choose to leave service to avoid extended family separations. We will monitor attrition rates closely throughout the year, because a pool of experienced reserve service members is critical to our ability to respond to emergencies and contingency operations.

ENSURE SUSTAINABLE MILITARY TEMPO AND MAINTAIN WORKFORCE SATISFACTION
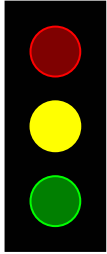
The military lifestyle presents special challenges to family life. Overseas tours away from support networks, frequent moves that disrupt a spouse's career or a child's school routine, and long separations from family members test the strength of our military families every day. The Secretary is committed to providing a high quality of life for those who serve and for their families. The Department's Social Compact (http://mfrc.calib.com/socialcompact) confirms our commitment to the highest standards for health care, housing, and support during family separations, as well as our commitment to meet the changing expectations of a new generation of military service members, such as increased spouse employment and career opportunity.

Of particular concern is how the time a service member must spend away from home station affects his or her family. Accordingly, we monitor where, why, and how frequently our military units deploy. This information is helping us build force management tools to more evenly distribute workload among those occupational skill groups called upon most often in times of crisis.

Ensure Sustainable Military TEMPO

Operational tempo is the number of days a military unit or individual service member operates away from home station. Traditionally, each military service used different methods to measure tempo rates for training, professional military education, peacekeeping missions, humanitarian relief efforts, planned force rotations, and other military missions. For example, some did not count time spent in school as deployment; others tracked only the movement of entire units, not individuals. However it is clear—whatever the reason for the absence—time away from home station affects families (who must endure separations) and the unit members left behind (who must pick up the slack).

In October 2001, lawmakers clearly stated their view—*a day away is a day away*. In response, each of the military services developed or en-

hanced existing data collection systems to support the legislative requirements.

In the National Defense Authorization Act for FY 2000 as amended by the National Defense Authorization Act of 2001, personnel with high military personnel tempo (PERSTEMPO) were to be paid a premium after more than 400 days away from home station over the last two years. The same standard applied to all services, even though each has different methods of training and deploying. Subsequently, in the National Defense Authorization Act for FY 2004, Congress allowed us to update the high-PERSTEMPO metric to take into account the frequency as well as duration of deployments. This more refined approach will enable us to develop optimal military PERSTEMPO profiles tailored to each military service's tradition and policy – maximizing readiness, retention, and quality of life, while minimizing time away and dissatisfaction. This connection of PERSTEMPO, quality of life, readiness, and other factors is an important benefit of viewing force management across the entire risk management framework.

We will begin tracking actual frequency and duration PERSTEMPO trends during FY 2004. We will further refine the measure and targets in FY 2005.

PERSTEMPO BY OCCUPATIONAL GROUP

In concert with the new PERSTEMPO standards, we are developing an approach to measuring PERSTEMPO across occupational groups. This new metric will portray the percentage of an occupational group, by military service, that has exceeded the 400 PERSTEMPO day constraint within the last 730 days or the 191-day consecutive PERSTEMPO day constraint. By monitoring these trends, we will gain valuable insight into what military specialties are "high deploying" and thus relate them to skill sets already identified with high-deploying/low-density units. This information will also inform and refine our emerging definitions of "critical skills."

Like the PERSTEMPO standard, this measure will be reported beginning in the third quarter FY 2004 and continue to evolve during FY 2005.

Monitor Commitment to Military Lifestyle

Perhaps the best predictor of whether service members will chose to continue their military career is their commitment—and that of their spouses—to the military lifestyle. To better understand this phenomenon, we have begun work on a measurable index modeled after research routinely used by the private sector to monitor employee commitment. Our effort includes both military members and their spouses. In 2003, we analyzed data collected during spouse and service member focus groups at military installations, and reviewed measurement models used in private industry. A survey was fielded in July 2003 to refine and validate the index and examine "life events" that service members and their spouses reported had the largest influence on their levels of commitment. The final commitment index, and a complementary spousal index, will be fielded for the first time in FY 2004. This index will demonstrate its value over time by providing commitment trends and we expect to be able to set specific targets in future fiscal years.

Quality of Life Social Compact Improvement Index

In keeping with the American standard of living, the new generation of military recruits has aspirations and expectations for quality of life services and access to health care, education, and living conditions that are very different from the conscript force of the past. Sixty percent of the force has family responsibilities and, like their civilian counterparts, rely on two incomes to maintain their desired standard of living.

Last year, we developed the first pieces of an index derived from a series of programs included in the Social Compact that will track improvements in QoL Programs. This initial framework addresses five program areas:

- Housing assignment

- 24/7 toll free family assistance

- Voluntary education/tuition assistance

- Financial readiness

- Dependent education – the Department of Defense Education Activity (DoDEA).

As an example, one performance measure for DoDEA will monitor student performance in reading, language arts, and math with the goal of 75 percent of all students scoring at or above standards on the national test by 2006.

Student Achievement

☐ Reading ☐ Language Arts ☐ Math

Long-Term Goal
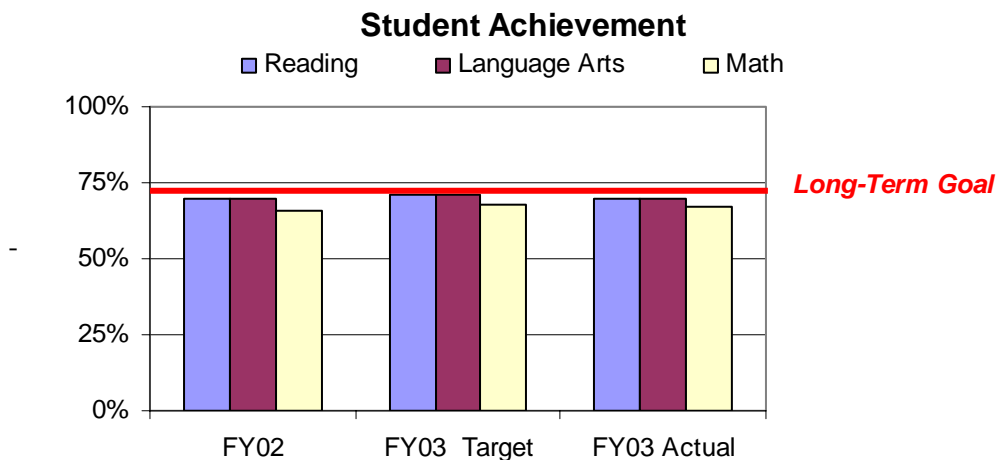
During FY 2004, baselines and performance targets will be established for each of these five programs. Continued research will add other programs to the index, with the goal of completing the index by the end of FY 2005.
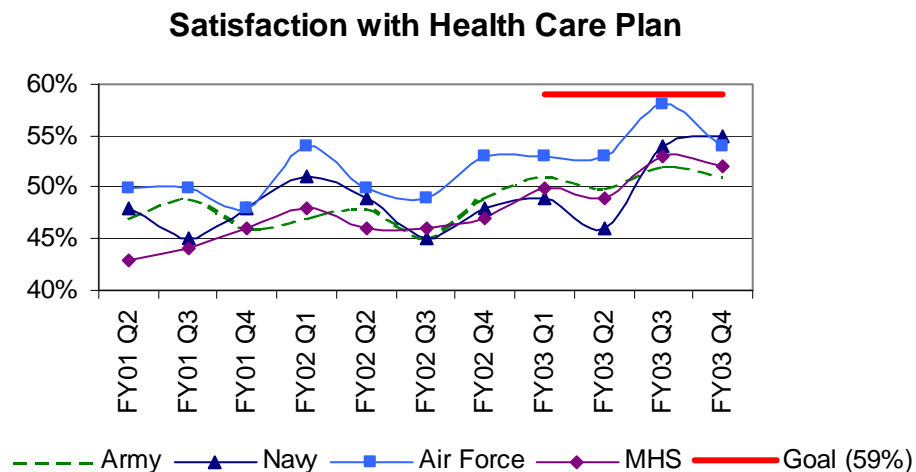
Satisfaction with Military Health Care

SATISFACTION WITH HEALTH CARE PLAN

Each year, we ask a sample of our 8 million eligible beneficiaries to rate their experiences with the Military Health Care (MHS) system by answering the following question:

Use any number from 0 to 10 where zero is the worst health plan possible, and 10 is the best health plan possible. How would you rate your health plan now?

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We consider beneficiaries who rate our health plan as 8, 9, or 10 to be "satisfied." In FY 2002, 46 percent of those surveyed indicated they were satisfied with their care, exceeding our performance target for FY 2002. In FY 2003, we set a "stretch" goal that would drive the organization forward. Although our actual results of 51.2 percent satisfied was below the civilian average of 59 percent satisfied (based upon a representative population from the national Consumer Assessment of Health Plans Survey Database for the same time period), we did show a significant improvement of 4.7 percent over FY 2002 results. We have set more achievable goals of 56 percent and 58 percent for FY 2004 and 2005, respectively. These targets are on track to close the gap with the civilian sector within three years.

Satisfaction with Health Care Plan

We also monitor the component parts contributing to overall satisfaction with health care, so as to better manage discrete services provided across the military health care system. Accordingly, we monitor two components of service delivery that beneficiaries rate as very important: (1) how easy it is to make an appointment, and (2) overall satisfaction with appointment. We monitor beneficiary impressions via a monthly Customer Satisfaction Survey of beneficiaries who had an outpatient medical visit at a military hospital or clinic during the previous month. Since the end of FY 2002, we have initiated two improvement programs intended to directly effect improvements:

- *TRICARE Online* allows prime enrollees to schedule a visit with their primary care manager via the Internet, instead of having to call for an appointment.

- *Open Access* allows prime enrollees to call military treatment facilities directly for same-day appointments.

ACCESS TO APPOINTMENT

Our efforts seem to be having an effect. In FY 2003 the military health care scored 83 percent satisfaction among those surveyed – just under the target of 84 percent, but well above the FY 2002 score of 80.8 percent. Our target for FY 2005 is greater than 84 percent of customers will be satisfied with access.

As we move into the next generation of purchased care contracts, this performance measure will provide additional insight on the Medical Treatment Facilities' management of telephone access and triage.

SATISFACTION WITH MEDICAL APPOINTMENT

In FY 2003 the beneficiaries reported that they were satisfied with their outpatient medical appointments 88.4 percent of the time. Although this fell short of our goal of 90 percent, it was an improvement over the FY 2002 score of 87.1 percent.

Our performance target for FY 2004 remains equal to or greater than 90 percent of customers are satisfied. This target will remain at this level until achieved.

MAINTAIN REASONABLE FORCE COSTS
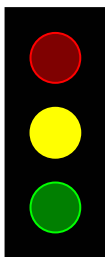
The term "force cost" typically refers to military pay and allowances. However, a much broader pricing strategy is needed to fully capture all the force-related activities that combine to drive overall labor costs in the Department of Defense.

Cost per Enlisted Service Member through Basic Training

Each year, we enlist about 340,000 new recruits (195,000 for the Active Component and 145,000 for the Reserve Component). Most of these young men and women are destined to fill entry-level billets: enlisted soldiers, sailors, airmen, and Marines who will serve in those jobs for a few years, then return to civilian life or advance to positions in the military that require more skill and experience. This cycle of recruit, train, and replace is a major cost driver for force management.

Two factors combine to provide a rudimentary indicator of the price of replenishing the total force over time: (1) the average annual cost to recruit one new service member and (2) the cost to complete basic training per service member.

Recruiting expenses include pay and other personnel compensation for the recruiting staff, enlistment bonuses offered to new members, college fund programs, advertising, and general support. Training covers the costs of the supporting infrastructure (manpower, equipment, facilities) needed to indoctrinate recruits into military culture, raise their standards of physical conditioning, and instruct them in basic military skills.

Historically, we have found that the cost-per-recruit has increased annually, while the cost of basic training has remained relatively stable. Unlike training costs, recruiting costs vary with economic conditions, national or local unemployment rates, or the level of interest among young people in serving their country.

Military and Civilian Personnel Costs

For years we have debated how to compare military compensation with the civilian sector. Though a seemingly straightforward task, such comparisons are complicated and can be misleading.

After extended study, the 9th Quadrennial Review of Military Compensation recommended that the pay of enlisted service members in their first 10 years of military service be compared with 70th percentile of earnings of all high school graduates. When enlisted compensation fell below the 70th percentile, recruiting and retention problems appeared. (It is generally very costly, both in terms of dollars and experience mix, to correct recruiting and retention shortfalls after the fact.) After 10 years of service, the compensation of mid-grade enlisted members is compared to civilians with some college education. After 20 years of service, the compensation of senior enlisted members is compared to civilians with a college degree.

Civilian Pay (70th Percentile) in Comparison to 2004 Enlisted Regular Compensation (RMC)
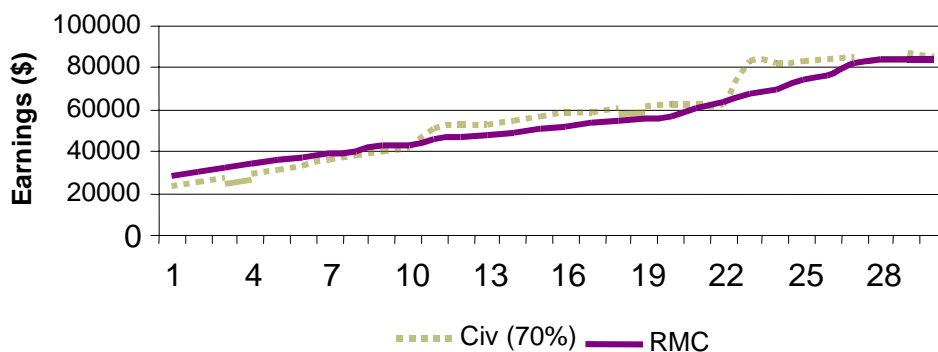
Note: Regular military compensation (RMC) is the total of basic pay, the housing and subsistence allowances, and the resulting tax advantages (allowances are not subject to Federal income tax).

For officers in their first 12 years of service, the commission recommended that military pay be compared to civilians with college degrees. After 12 years of service, officer compensation is compared to the pay of civilians with college and advanced degrees in managerial and professional occupations.

**Civilian Pay (70th Percentile) in Comparison to
2004 Officer Regular Compensation (RMC)**
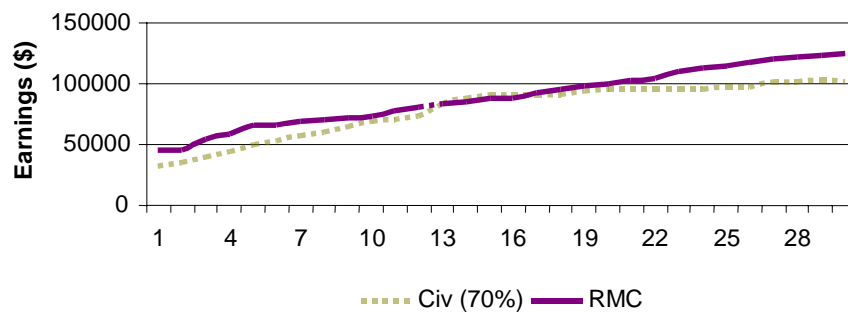
Although somewhat complicated, these metrics provide meaningful insights into the relationship between military and civilian sector compensation. Over the past years, we have made progress closing this gap in compensation. We will continue to monitor the relationship of military to civilian pay and the effects of pay adjustments on recruiting and retention.

Civilian force costs	FY 2001 Actual	FY 2002 Actual	FY 2003 Preliminary	FY 2004 Projected	FY 2005 Projected
Total	42,258,733	44,867,063	46,167,420	46,851,293	48,042,988
Basic pay	31,887,999	33,376,576	34,409,122	34,853,540	35,762,897
Premium pay	1,985,502	2,347,501	2,144,505	2,148,222	2,185,517
Benefit pay	8,066,742	8,822,937	9,245,600	9,515,435	9,844,081
Separation pay	318,490	320,049	368,193	334,096	250,493

Cost of Community Quality of Life (QoL) Per Capita

Other performance measures tell us that QoL factors—the "unpaid" compensation we provide our military members and their families—is a strong contributor to overall workforce satisfaction. Consequently, we are researching new metrics that will help us isolate and evaluate investments in QoL services. The QoL per capita cost measure is the third leg of the three-pronged approach that combines it with the QoL Social Compact Improvement and the Commitment to Military Life indices to measure the health of QOL programs and services supporting military members and families. Per capita expenditures must remain stable to prevent a widespread

diminishment of levels of QoL and morale. This is especially true as we embark on a global basing review during FY 2005.

The measure will calculate per capita costs by using active-duty end strength of a FY 2002 baseline established using execution data. That baseline includes funding provided by the military services for child care, family centers, voluntary education and tuition assistance, exchanges, school-age and youth programs, and morale, welfare, and recreation (MWR) activities, such as fitness centers. In FY 2004, we will gauge the progress of each military service towards sustaining or improving funding for QoL activities. Expenditures planned for future years will also be tracked to ensure resources are adequate to respond to deployments and requirements of the military lifestyle. The table below reflects "unpaid compensation" funding provided in the FY 2004 defense budget.

Community Quality of Life Per Capita Cost Metric	FY 2002 Actual	FY 2003 Budget	FY 2004 Budget	FY 2005 Budget
Army	$1,180	$1,291	$1,106	$1,295
Navy	$1,269	$1,341	$1,242	$1,145
USMC	$ 940	$ 910	$ 975	$1.025
Air Force	$1,580	$1,607	$1,684	$1,728

Military Health System Performance

We have persisted on our ambitious plan to change how we manage medical benefits. Core to these efforts is the Defense Health Program performance plan, which codifies our commitments to providing excellent health-care benefits to our active-duty members, retirees, and their families, while at the same time managing the military health care system more efficiently and effectively. In the last year we have developed the indicators described below to track medical costs per enrollee per month, revamped our initial outpatient market share measure to narrow our focus, and modified our primary care provider productivity measure targets to make them more realistic. We expect more improvements in the future years as we migrate to a Prospective Payment System, which will fund medical facilities based on performance. Under this system, earnings will be based on

production, instead of the traditional inflation-based commodity pricing.

Several years ago, we consolidated our health care delivery under our TRICARE management activity, and began reforming how we purchased care from the private sector.

To gauge the progress of those initiatives, we developed an indicator that will track how well the Military Health System manages care for those individuals who have chosen to enroll in a benefit similar to that provided by a private-sector health maintenance organization. The "medical cost per enrollee per month" measure will capture three major management issues:

- How efficiently care is provided.

- How effectively enrollee demand is managed.

- How well the Military Treatment Facility determines which care should be directly provided by the MTF facility versus being purchased from a Managed Care Support Contractor.

While the top level measure is used to track overall performance, the detailed measures allow for review and better management at the local level. FY 2003 results show that the increase in medical cost per enrollee per month is below the rate being experienced in the private sector for premium increases as reported by the Kaiser Family Foundation. For the Military Health System, the cost for FY 2002 was $174 per enrollee per month. Our FY 2004 goal is for our medical cost per enrollee per month to increase less than 14 percent, the projected private sector premium increase for the next twelve months. Because this is a lagging indicator, our FY 2005 goal will be established after FY 2004 execution data have been collected and analyzed.

SHAPE THE FORCE OF THE FUTURE
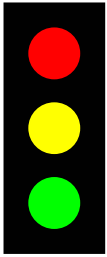
The global war on terrorism has demonstrated that we need a force that is trained and prepared to meet future asymmetric threats and international challenges. Clearly, *status quo* personnel management will not suffice.

This year, Congress approved our landmark proposal for a new National Security Personnel System that will make sweeping changes to the way we manage civilian personnel. NSPS gives us the flexibility to modernize our personnel management system while continuing to preserve merit principles, respect Veterans' Preference, and maintain union involvement.

The design of the NSPS is based on over 20 years of experience in operating personnel demonstration projects and alternative personnel systems. Key features include:

- Shifting civilian employees from the general schedule pay system to a pay-band system.

- Replacing automatic annual pay increases with a pay-for-performance system.

- Streamlined hiring authority.

- Special pay authorities to bring specialists and retirees on board for special projects.

As we have done for the civilian workforce, we have also created a Military Human Resource Strategic Plan, which sets achievable goals for near-, mid-, and long-term implementation.

Meet Civilian Workforce Management Objectives

Our Human Resource Strategic Plan (www.dod.mil/prhome) lays out the way ahead for recruiting and managing an excellent modern workforce. The Strategic Plan encompasses efforts to meet the goals of the Human Capital Initiative of the President's Management Agenda as well as moves us toward efficiency measures like time to fill civilian vacancies and success in filling positions defined as critical skills.

Although measures will be refined as we phase-in the new National Security Personnel System, we are committed to the research and intense developmental activities required by the Strategic Plan. For both FY 2004 and FY 2005, success requires us to fund and complete at least 80 percent of our scheduled tasks.

Meet Military Personnel Requirements of a Transformed Force

One of the most exciting innovations is a new approach to military force management called "Continuum of Service." Under this approach, a reservist who normally trains 38 days a year could volunteer to move to full-time service for a period of time – or some increased level of service between full-time and his normal reserve commitment, without abandoning civilian life. Similarly, an active service member could request transfer into the reserve component for a period of time, or some status in between, without jeopardizing his or her full-time career and opportunity for promotion. Military retirees with hard-to-find skills could return to the service on a flexible basis – and create opportunities for others with specialized skills to serve.

We hope the Continuum of Service and other innovations will improve our ability to manage the military workforce with options that currently exist only in the private sector. For example, coalition forces in Iraq need skilled linguists, so we have recruited Iraqi-Americans into a special Individual Ready Reserve program associated with our new Continuum of Service program.

In addition to the Continuum of Service initiatives, some 45 research efforts have been or are being undertaken to support the Military Human Resource Strategic Plan. Over the long term, we intend to use the data collected from these many research efforts to design and implement optimal human resource planning – that is, the most advantageous career patterns and service obligations for the force as a whole. Future critical skills, such as information operations, language and foreign area expertise, and space operations will be defined, and progress toward meeting the resulting need will be monitored.

Define and Meet Core Divestiture Requirements

The 2001 Quadrennial Defense Review first raised the issue of whether we were managing our workforce efficiently and effectively – and specifically whether we were using our military personnel in jobs that took full advantage of their experience and training. This activity measure has accomplished its goal by bringing the issue of balance and alignment to the senior management. The result has been a series of initiatives to examine the right mix of the force, both military and civilian. These measures and activities are now codified in the Department's human capital management plans for both civilian and military personnel (described above). Accordingly, this activity measure is retired.